The MORTGAGE BANKER

VOLUME I—No. 5 — MARCH 1, 1939

FHA — PRO AND CON

An MBA Member Who Has Made a Large Volume of FHA Loans Looks at the Agency and Explains Its Weaknesses and Advantages

By GEORGE H. DOVENMUEHLE

IF we are to attempt to make any study of the FHA and its effect on our mortgage business today, and if we are to appraise fairly its advantages and weaknesses, we must, first of all, approach the subject with an open mind. We must recognize that while human nature has not changed very much during the last ten years, human ideas have.

By 1934, the American people as a whole, and especially that large group interested in home ownership, had come to believe that our old methods of financing homes were inadequate; that if we were to have any appreciable increase in home building, future borrowers would need the encouragement of more liberal loans than were legally or prudently possible under the regulations which then governed the investment policies of the large lenders.

Out of the trials and tribulations which had befallen the investor and borrower alike, there had come a demand to supplement our old system with new methods which would remove some of the hazards of the past and place home ownership within reach of millions who never before could attain it.

And so, whether we like it or not, we cannot deny the fact that the American people at that time, through their constitutionally chosen representatives, had decided:

1) That housing is a national problem.

2) That adequate housing facilities are so essential to our social order that the full credit of the United States government should be used to foster their development.

Quite naturally, all of us are inclined to resist change. This spirit of resistance to change is healthy, insofar as it serves to keep the ship of state on an even keel. We in the mortgage business originally reacted to the FHA as those in other industrial fields reacted to the idea of government supervision and control of their particular industries. Many of us questioned the wisdom of 80 per cent loans. Nor did we like the idea of government competition.

Today, on the eve of further revisions and changes in the National Housing Act, an MBA member who has been a leading FHA lender, analyzes the agency's past record and sets forth its advantages and disadvantages as he sees them. This article makes a fitting follow-up piece to Mr. Hollyday's discussion in our last issue.

At the outset, our suspicion was heightened by a somewhat indifferent attitude by government officials toward private lenders, which accompanied the fanfare leading to the introduction of the FHA.

Since that time, however, mortgage bankers who have come in contact with the personnel and methods of the FHA, have come to have an ever-increasing respect for the efficient work that it is doing, and for the men who are directing it.

Simultaneously, with this understanding on the part of private business men, there has come to government officials a knowledge of the need for the real estate broker, the promoter and the mortgage man, and an understanding of the value of their services to a sound real estate industry. Through this co-operative spirit, the influence of the FHA has now extended across the country, and it is possible to weigh the various advantages and disadvantages of the insured-mortgage plan. First, let us examine FHA's advantages:

1) The building industry prior to the entry of FHA into the lending field, was prostrate. Very few people could produce an equity sufficient to get a new construction loan through the channels which were then available. The great majority of building that has occurred since 1934, both in the field of homes and apartment houses, can be credited directly to FHA. The building industry should be singularly indebted to FHA, because new construction continued without interruption during the second half of 1937 and the first half of 1938, when production in all other lines had slowed down to a marked degree.

2) The FHA, unquestionably stimulated the mortgage market.

3) By virtue of this, it also stimulated the idea of home ownership, and provided a more ready real estate market for homes.

4) By setting up certain fixed rates of interest and commission and eliminating refinancing charges, it helped to reduce the total cost of borrowing money and thus aided the home owner.

5) By the standardization of appraisal methods, the FHA has set up a system

of valuating which gives assurance that every property has been thoroughly checked for architectural structural deficiencies, and neighborhood suitability.

6) Much of the doubt lingering in the public mind as the result of the heavy final maturity payments which had fallen due during the depression, and which could not be refinanced at that time, was removed by the FHA amortization schedule of monthly payments. This schedule eliminated the fear of a large lump sum coming due at a time when the market was frozen.

7) Any architect, builder or mortgage banker who has had anything to do with an FHA project has come away with a high respect for the efficiency of the FHA planning and architectural divisions. No one man or group of men can possibly have the wide-spread acquaintance with building detail that is the property of a nation-wide organization operating from coast to coast. The knowledge of a possible construction error uncovered in New York or California, which has been corrected, may prove helpful in uncovering and eliminating a similar mistake in Illinois.

Says FHA Efficient

8) Through the large scope of its operations and the data it has gained therefrom, the FHA has encouraged the use of new and better building materials.

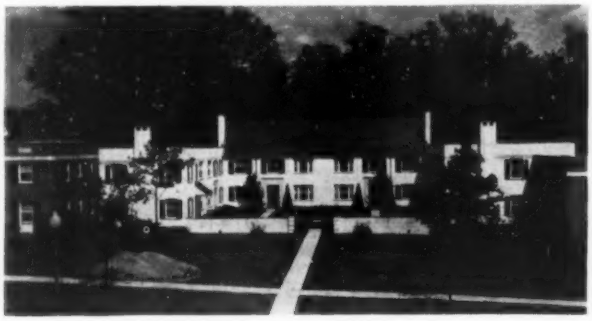
9) Improved and highly efficient methods of supervision during the construction period, both for homes and apartment house projects, have been installed by the FHA. This system of checks has to a large extent, eliminated the danger of shoddy building.

10) A complete credit check-up, even on the smallest borrower under the FHA plan, has led to a better selection of credit risks than was formerly the rule.

11) In the field of new subdivisions, the FHA exercises a measure of control which has resulted in better ground-planning and should to a large extent eliminate the wildcat operator.

12) The FHA plan of insured mortgage loans has not yet been put to a severe test. When this time comes, the

FHA WAS THE SPUR THAT CREATED THESE



Shown herewith are four of the earlier large scale housing projects of the kind which Mr. Dovenmuehle mentions in this article. The first (upper left) is a view of Buckingham Apartments at Arlington, Virginia, with 1,014 family units and costing $4,710,000. The first, third and fourth units in this project were financed by Prudential and the second by the Navy Mutual Aid Association. Also (upper right) is a view of the Falkland properties at Silver Springs, Maryland. It was financed by the Union Central Life Insurance Company, cost $2,718,000 and has 479 dwelling units.

Below (lower left) is shown the Country Club Apartments at Greensboro, North Carolina. Financed by the New York Life Insurance Company, it cost $471,000 with 86 family units.

At the lower right is shown the Colonial Village project at Arlington, Virginia, with 974 dwelling units. It was financed by New York Life and cost $3,894,100.

These are some of the earlier large-scale housing projects on which the FHA has insured mortgages. Some of those now under construction or for which financing has just been negotiated are much larger. These are the type of projects to which Ralph A. Brooks, prominent Nek York real estate man, recently referred as constituting the biggest defect in the National Housing Act effort (see *The Mortgage Banker*, January 15th issue). He feels that no project financed under Section 207 should charge a rental in excess of $14.00 a room and declares, "Until this is done, or the administrator exhibits an awareness of renting market conditions surplus will be piled on surplus until urban real estate values collapse under the weight of a housing glut."

FHA will have a great advantage which no mortgage or real estate organization has ever had before. It will have the opportunity, through its own extensive accumulation of data and through its connection with other government agencies, of observing on a national scale the peaks and valleys which will affect its investments. Through its far-flung operations, it will be able to exercise a large measure of control over the mortgage money market.

FHA's Weaknesses

And now let us consider FHA's weaknesses as I see them:

1) An 80 per cent loan naturally involves greater risk than a 50 per cent or 60 per cent loan. In a declining real estate market, this becomes a serious matter.

2) This is particularly true in States where antiquated foreclosure laws mean long periods of redemption and result in expensive proceedings which destroy the equity of the borrower and create a burden for the lender.

3) FHA procedure leading up to the insurance of the loan, as well as the servicing of payments after the loan is made, is both slow and cumbersome. It is therefore costly. The total expense to the lender and that, of course, means the borrower as well, is consequently somewhat higher than in cases where the loan is made for a smaller percentage of the value.

4) The inherent danger of the entry of political considerations into the determination of location and size of loans, is always a possibility that must be guarded against.

Latest FHA figures available are those for January and show that the total value of mortgages *accepted for insurance* during the month amounted to $42,217,800, representing an increase of 118 percent over the same month last year. Small home mortgages *selected for appraisal*, however, were much higher, amounting to $77,594,030, a gain of nearly 160 percent over January, 1938. This latter figure shows how FHA business is increasing because in 1938 mortgages selected for appraisal only gained 71 percent over 1937 — as against this January gain of 160 percent.

5) There is no certainty that we will escape another depression. During the last crash, many borrowers lost their jobs and were unable to even pay interest on their loans. Should a similar crash occur again, the losses arising from these loans would be a severe burden on the national credit, and might eventually have to be assumed by the tax payers of the country.

6) Despite the opportunity which the FHA will have for observing economic peaks and valleys, and controlling the flow of mortgage credit, there is no assurance that its officials will be able to interpret these signs correctly, or forcast the future accurately. Besides the possibility of human error, history has shown that there is a deep-seated reluctance on the part of any political authority to confess that conditions are bad during its tenure of office, and likely to grow worse. It will take a most courageous administrator to halt the flow of home building credit when it becomes necessary to do so.

FHA Worth the Risk?

Unquestionably the FHA has been a tremendous constructive and stabilizing force since its inception. It can continue to exercise this influence in the future. Undeniably, however, it involves a risk to the public credit. The assumption of this risk by the United States Treasury can be justified only so long as the affairs of the FHA are competently administered, free of political domination, and fulfill the social aims for which it was created.

Has it been worth the risk? I believe it has.

STATES HAVE BECOME BIG LANDOWNERS

From the AMERICAN SOCIETY OF PLANNING OFFICIALS

There is a growing movement among States and counties to find proper use for rural land which has reverted to the State because of tax delinquency.

Oregon and California confronted this problem most recently, with Oregon in 1938 owning 1,714,349 acres of rural land. Additional areas valued at about $20,000,000 were foreclosable because of tax delinquency. Michigan owned 2,000,000 acres of tax-reverted land in 1934, and at that time was holding about 3,000,000 additional acres before taking title. In New Jersey a recent survey showed that nearly 900,000 acres of rural land were tax delinquent.

Cut-over timber lands which had lost their former tax and productive value composed a large portion of the tax-reverted land in Oregon, Michigan, California, Minnesota and Wisconsin.

California, with the assistance of the Federal Works Progress Administration, began recently an investigation and classification of State-owned land. Minnesota in a recent referendum authorized the exchange of State land for areas owned by the Federal Government with a view toward consolidation of Government-owned areas. West Virginia has authorized its Public Land Corporation to sell, purchase or exchange tax-reverted land to consolidate State holdings.

Minnesota, Michigan, New York and Wisconsin are among the States which pursue State land programs in which the reverted land is classified as to soil potentiality and salability. These lands are homesteaded, resold or exchanged. Areas unsuited to agriculture and lying adjacent to other State lands are incorporated into parks and game refuges under this system.

Methods of management depend upon two types of reversion. In 29 States foreclosed or abandoned land reverts to counties, and in 19 States to the State. Planners have found that where the States hold title to the land there is a better opportunity to promote and finance large-scale management programs and to co-ordinate land use policies with those of other agencies. Although counties are in closer contact with local problems they often lack sufficient funds and personnel to carry out land use programs.

WILL INTEREST PARTICIPATION ENTIRELY REPLACE LOAN COMMISSIONS?

A Plea for a More Sensible System for Compensating Mortgage Bankers

By FRANK WOLFF

"Will interest participation entirely replace loan commissions?" It appears to be a simple question to answer, but as one ponders it, it soon becomes obvious that to arrive at a correct forecast one must consider many things, not the least of which is the future trend of interest rates and the type of new loans to be acquired. Interest rates are important because both the net rate to the institutional investor and the income to the correspondent must come out of the interest paid by the borrower. The investor with certain fixed obligations and expenses to meet must assure himself of a minimum return, just as the correspondent with a more or less fixed overhead must assure himself of a minimum income to cover this overhead. Obviously, if interest rates are reduced, both the investor and the correspondent must share in the loss. As interest rates increase, both share in the gain. Interest rates will always be dependent upon the amount of funds seeking investment in mortgage loans and the demand for such funds. When the supply exceeds the demand, the borrowers occupy temporarily the stronger position, and, more or less, dictate terms. When, to the contrary, the demand for mortgage money is stronger, then the lending institutions, operating in a less competitive market, will be able to accumulate such volume of loans as they may desire on terms more agreeable to them and their associated companies.

I have intentionally implied that there is no conflict of interest between the correspondents and the institutions that they represent. *There is now much difference of opinion on this score.* All of us have often noticed that many correspondents, when discussing this relationship, ignore entirely the interest of the lender, just as too often many representatives of the lending institutions have indicated indifference to the problems of the correspondent.

Actually, both the lending institution and the correspondent have a common problem. If the correspondent system is to continue, *and it will,* then assuredly it must be based on a mutality of interests. There can be such undivided interest only when the correspondent assumes, and is held responsible, for collections. To assume such responsibility, he must provide himself with a servicing organization that will function efficiently in both good times and bad. To function properly, such servicing department must have at all times a continuing income. The cost of such departments is in direct relationship to the volume and kind of business handled, and the correspondent should receive an interest differential sufficient to cover these costs. One of our great difficulties today is that none of us know, percentage-wise, exactly what these costs are, but all of us have learned that monthly payment loans, and particularly FHA loans are extremely expensive to service. When we know more about these costs, we can more readily determine what the interest participation should be.

Mr. Wolff has set down here a sane and carefully-reasoned discussion of the loan correspondent versus the branch office with particular emphasis on the interest participation versus the commission. Here is a problem for mortgage men which yields to none in the amount of discussion pro-and-con that centers about it. The author attacks it without the emotion and bias some give it. Mr. Wolff's views may not be precisely yours but they represent the studied opinion of one who, like thousands of others in the mortgage field, feels concerned about the problem.

The costs of such servicing departments are separate and distinct from the cost of acquisition, the general bookkeeping department, general overhead, and other departments. But a proper allocation of expenses makes the servicing department chargeable with its share of the general overhead, and interest spread must be adequate to cover such allocation and should be sufficient to produce a reasonable profit. Since the differential is a continuing arrangement, it should not be intended to cover the costs of acquisition, which should be otherwise provided for.

Such acquisition costs are in themselves separate and distinct items from other functions of the usual mortgage business. Heretofore, they have usually been covered by the cash commission paid by the borrowers. Competition has now largely eliminated such commissions. At the same time, competition has increased the cost of acquisition. If the correspondent is to expend these costs, without prompt reimbursement therefor, and await his return out of the interest differential, he may soon find himself in an awkward position. As a good many correspondents are now operating, they may, sooner or later, find themselves unable to function aggressively because too many of their assets are frozen in the "equities" in the loans they have made and sold to their connections. That situation will surely come about unless correspondents are quickly reimbursed for their cost of acquisition. They cannot continue, year after year, to advance these costs, and accept reimbursement over a long period of time. The lenders want and need correspondents that are active and aggressive in keeping collections current. A "frozen" agency would be disastrous for the correspondent and extremely unhealthy for the lenders. Both of them should seek to avoid the possibiltiy of any such eventuality.

There is little to indicate a return of the cash commission. It seems apparent that for many years to come competition for mortgage loans will probably be severe even though interest rates may rise as and when we have the promised "balanced budget." If the correspondent system is to survive in a healthy condition, a substitution for such cash commission must be found, and it is my belief that it will take the form of a premium paid by the lenders in addition to an interest participation. This pre-

(Continued next page)

DOUBT SHROUDS FUTURE OF MORTGAGE RATES

By WILLIAM R. WHITE

The extent to which the trend toward lower rates will continue is problematical. In the case of new mortgages, unless there is a substantial increase in building activity, lower rates appear to be in prospect. Defaults are not expected to be an increasingly important factor. For the most part, a reduction in the interest charge on loans which are at present in default would be insufficient as a measure to avoid foreclosures.

(A factor affecting yield on mortgage loans, Mr. White continued, is the practical necessity for reducing interest rates on loans of a marginal character in order to secure amortization of principal. With lower rates as an incentive, an increasing number of loans are being revised to provide for amortization. Experience with such plans suggests the advisability of amending the present laws to permit compulsory amortization where interest rates are adjusted downward to a point where the total charge will not constitute an unreasonable burden on the mortgagor.)

NEW YORK'S LIMITED DIVIDEND PROJECTS SUCCESS

By LOUIS H. PINK

Limited dividend building does not pretend to care for the lowest income group but it fills a real civic need. It provides homes at a reasonable rate for those who are not in the lowest income group but are unable to pay an economic rent. The law provides that rooms in these apartments rent on an average not to exceed $11 a room a month outside of Manhattan and $12.50 a room a month in Manhattan. The rules of the board require that no tenant shall be retained whose income exceeds five times his rent.

It is, of course, humanly impossible to prevent all malingering, but every effort has been made to make this rule effective. This year about one hundred leases were not renewed. Some of these because the tenants' incomes had increased.

We feel that the background of our experience for the year will be very helpful to the Legislature in assisting them in the preparation of suitable laws to implement the housing amendment which was passed last fall.

(Mr. Pink, chairman of the New York State Board of Housing, declared that last year's experience with the state's 14 limited dividend projects has been successful, with income about the same as 1937 despite higher operating costs.)

WOLFF SAYS CORRESPONDENT SYSTEM WILL SURVIVE AND GROW

mium probably will and should be small, sufficient only to cover the acquisition costs and enable the agency to continue the production of new business without a loss of cash resources.

The alternative to such a program is for the lender to open his own branch offices. However, by doing so, he does not avoid paying for the cost of acquisition. Under this plan, he not only has to meet the monthly expense account of the branch office, but puts the manager of that office in the onerous position of assuming responsibility for both quality and volume sufficient to cover such expenses. Some companies are now experimenting with this plan. They will soon learn something about the costs of acquisition and the costs of servicing now borne by the correspondents. Many lenders find objections to such branch offices and believe they will prove to be unduly expensive.

Other companies are purchasing loans from or through brokers and undertaking to service such loans through their home or own branch offices. The seller's sole compensation comes from cash commissions or premiums paid. Not much in the way of servicing can be expected from him. The responsibility for collections is assumed by the buyer. The objections to this plan are obvious and most lenders avoid it in the belief that in the long run it will prove by far the most costly. Past experience should be a guide.

Those looking for a return of the days of the cash commission will find little comfort in what the author here says about it because he does not believe it will return. Some substitute must be found and he thinks it will be a premium paid by the lender in addition to an interest participation. Mr. Wolff takes a fling at both lending institutions and the correspondents, asserting that too often both of them ignore the interest of the other. Hence, in too many cases, there is never a chance to establish a mutuality of interests.

The correspondent system has its faults. There is too much duplication of work in the offices of the lender and correspondent. Much of this should be eliminated. Loan inspections are too frequent and too costly for both lender and agency. Too much is spent for traveling expenses.

The correspondent system will survive and grow, but correspondents will be more carefully selected. The relationship between the correspondents and lenders will become more intimate, more cooperative, more confidential. This is essential if operating costs are to be reduced and adjusted to prevailing low interest rates. The lenders will demand more responsibility on the part of the correspondents, but will liberalize the compensation to the correspondents to enable them to operate efficiently and compete successfully for a fair share of the inadequate supply of desirable loans. This compensation will be in the form of a premium paid for loans acquired, together with an interest spread that will cover adequately the cost of proper servicing, both sufficiently large to yield a nominal profit to a good producer who is an efficeint and trustworthy operator,

MUST WE BUILD WHERE NO BUILDING IS NEEDED?

And Are Slum Clearance Projects That Clear No Slums Warranted? Asks Huntington, West Virginia

When HOLC foreclosures were rapidly increasing each month, mortgage and real estate men observed the trend, many wondering what might be the result if, at some future date, the federal government might decide to pursue "a dumping" policy — sell the properties for what they would bring. Officials were reassuring that no such policy would be followed, that nothing would be done to upset or disturb the real estate market. The question still remains academic because HOLC sales policy today is not a demoralizing factor in the real estate market.

Within recent weeks another trend has been observed—a trend that many say can produce somewhat the same effect as "dumping" but which comes from an entirely different policy. Those who have spoken say the federal government's activities are hurting the real estate market because some buildings are being erected where no new construction is needed. They ask "Why should the government build new structures while existing buildings answer the need."

Critical of FHA

The New York Times considers the matter as about the "first critical comment registered against FHA" and declares:

"The steady increase in the number of large-scale rental-housing projects being financed by FHA-insured mortgages has caused some builders and realty men, and particularly the owners of apartments which may feel the effects of competition from these new buildings, to ask the Federal agency to go more slowly in approving such projects. General construction activity still is at a fairly low ebb, and this critical comment is about the first which has been registered against the FHA."

Research by *The Mortgage Banker* turned up three instances where communities are complaining that the federal government is building (or plans to insure the loans for such building) where there is apparently some question of the economic soundness of the undertaking. One, of course, is the much-discussed new census building, another in Huntington, West Virginia concerns a slum clearance project and the third is in St. Louis and concerns an apartment project.

Property owners, real estate men, mortgage banking institutions and others are now protesting against the government's plan to build a three and a half million dollar building in Washington to house census employees. Those opposed want to know why the government cannot use some of the 35 million square feet of vacant office space throughout the country.

USHA is designed to clear slums and provide decent housing for America's under privileged—housing that, it is said, private capital cannot provide, but housing which we as a progressive modern nation ought to provide for our lowest income group. FHA is designed to stimulate new construction, but in putting into practice the purposes for which these two agencies were set up some observers believe that there are times when they accomplish *too much.* The possibility is at least suggested by the data supplied *The Mortgage Banker* for this article.

Congressman John G. Alexander of Minnesota, former president of the Minneapolis Association of Building Owners and Managers, in a house committee hearing at Washington, pointed out that at present 18 per cent of the office building space of the country is vacant. This amounts, he said, to 35,651,623 square feet.

"The appropriation of \$3,500,000 for this new building calls for a structure with an area of 417,000 square feet for use of the census bureau," Alexander said. "Why not go out into the states and rent this space? I know the building owners and managers throughout the country would be pleased to give their vacant space at reasonable rates in an effort to meet their running expenses, taxes, and fixed charges on their properties, which have been standing vacant for the last seven or eight years.

"Let us divide up this census business and send it back to the states where it belongs. You are going to have to take the census out in the states, anyway. Why build more when we have over thirty-five million square feet of building space vacant in this country today?"

Why overcrowd Washington, is the question the federal government is being asked. In other words, why build new buildings when present buildings that can be used are vacant?

The second instance has to do with slum clearance in a medium-sized city. In Huntington, West Virginia the Huntington Housing Authority, through the United States Housing Authority, plans to erect 500 additional dwelling units at a cost of over 2½ million dollars and it would appear from the most reliable information obtainable by *The Mortgage Banker* that there is considerable doubt of the need for any such construction at all. But let a competent observer, thoroughly familiar with local conditions in Huntington (a man not a member of this Association and not in the real estate or mortgage business) tell the story:

Is It Slum Clearance?

"The development, as now planned," he writes, "will consist of 500 dwelling units, to cost \$2,568,000, and to be constructed in three projects, namely, one for colored people, consisting of 80 units of row-flats or apartments; one for white people consisting of 136 units of row-flats or apartments, and another for white people consisting of 284 units which will be constructed in multiple-unit buildings. Units will consist of 3½, 4½, 5½ and 6 room apartments, with fully equipped kitchens (including refrigerators, ranges, and cabinets), and laundry rooms. Rentals will be approximately \$5 per room per month, including utilities.

"The Housing Authority has not made public any information as to its investigation of the housing needs of the City, and no one knows upon what grounds it was determined that 500 units are needed here. No one familiar with conditions here can perceive any jusification for such development. The Authority says, in general terms, that it is engaged in slum clearance and low-cost housing.

"The grounds of the opposition, which are fully borne out by admissions of members of the local Authority, and to some extent by admissions made by Mr. Nathan Strauss, the National Administrator, in a speech here at Huntington, are, aside from certain technical legal grounds, substantially as follows:

"(1) The development will not be devoted to, and is not intended by the Authority, as slum clearance. Neither

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The MORTGAGE BANKER

PUBLISHED SEMI-MONTHLY BY THE

MORTGAGE BANKERS ASSOCIATION OF AMERICA

111 West Washington Street, Chicago

S. M. WATERS, *President* — FRANK C. WAPLES, *Vice-President* — GEORGE H. PATTERSON, *Secretary-Treasurer*

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GEORGE H. PATTERSON, *Editor*

MARCH 1, 1939

STATE TAX ON REAL ESTATE AROUSES OPPOSITION

The proposed state tax in New York on real estate amounting to $26,000,000, of which $16,000,000 is to be collected from New York City, is arousing considerable opposition. Renters, it is said, are going to be fully apprised of the burden they must bear before any such tax becomes effective. The movement recalls the present Texas governor's recommendation that 1.6% transaction tax be levied for pension purposes. The tax would apply to rents, it is said, and very probably sales of real estate.

MORE GOVERNMENT BANKS

A bill has been proposed to set up five regional industrial banks with a maximum capital of $5,000,000,000 to supply funds for business. Senator Pepper of Florida is the principal sponsor of the measure. He will be remembered by mortgage men in connection with other bank proposals. These proposed banks are not the only ones in the Washington news these days. The central mortgage bank is receiving some attention and a few days ago the Export-Import Bank was the subject of bitter controversy in Congress although its operations were extended until 1941. These incidents only tend to show that the trend toward establishing more and more government credit agencies is by no means at an end.

Frank Wolff, who contributes one of the two leading articles in this issue, is president of W. K. Ewing Co. Inc., of San Antonio. The firm was established in 1917 and was once the Alamo National Company, wholly owned investment affiliate of the Alamo National Bank. After passage of the Federal Bank Act of 1933 the Company was divorced from the bank and resumed its original name of W. K. Ewing Co. The firm acts as loan correspondent for several important life insurance companies.

George H. Dovenmuehle, who writes on the FHA in this issue, is vice president of Dovenmuehle, Inc. and president of the Chicago Mortgage Bankers Association. Mr. Dovenmuehle's firm is one of the leading Chicago mortgage banking organizations, and has been active in making large loans under section 207 of the National Housing Act.

of the three sites chosen for the projects are slum areas, and the Authority does not propose to clear any other areas which may be classified as slums. Furthermore, the Authority will not accept as tenants those persons now occupying slum areas. It seems rather ironical that a public agency which says that it is performing a great humanitarian service in providing housing for the poor people of the city, will not accept those people into its projects because, indeed, they cannot meet the requirements imposed by the Authority to maintain the high standard of the development.

"(2) The development is not low cost housing because private capital would be able to build equivalent accommodations and rent the same for less than will be charged by the Authority, for one-half of the amount per unit which it will cost the Authority.

"(3) There is no need for this development here. Huntington has always had ample housing accommodations for its people. There are now approximately 600 vacancies in the city, which, though not large in proportion to the number of rental units, is ample for our needs, and serves to keep rentals at a low figure. Safe, decent and sanitary houses are available to the persons within the income class which will be acceptable to the Authority at rents equal to, or less, than the Authority will charge.

"(4) The subsidy of public funds which will be required to maintain the so-called low-rent character of these projects amounts to $100,000 per annum for sixty years, or approximately $17.50 per unit per month, for which amount per month, present housing facilities are available to all persons in the city who want them.

"(5) The State and City has granted tax exemptions to the Authority and all of its tenants for a period of sixty years. In other words, laboring people who own their homes, or who rent from private owners, will have to pay taxes for the purpose of supporting those persons favored, for political reasons or otherwise, by being chosen as tenants for these projects,—not this year and next, but for the period of sixty years."

This is the first of a series of two articles on this subject. The second will appear in the March 15 issue.

SAYS LENDERS HOLD 2½ BILLION OF PROPERTY

The foreclosed dwellings now held by America's mortgage lenders offer a partial solution to the housing problem, Dr. William H. Husband of the FHLB Board believes. Dr. Husband indicated that at the end of 1937 mortgage lenders held about 850,000 one-to-four family dwelling units valued at more than $2,500,000,000 and there is no reason to believe that the figure has changed very much since that time. "Good housing is not necessarily new housing," he says. "The individual who wants a home but whose funds are limited will find that many of these properties can be bought at reasonable prices and convenient terms. Resale of a considerable part of the dwellings now held by institutions would have a stimulating effect on housing as a whole."

COMING NEXT ISSUE

An MBA member tells why he favors farm loans as investments today, another asks "Who Is the Lender?" and a third article discusses the first results of one of the most comprehensive surveys ever made in the mortgage field.

TAXES EAT INTO FARM VALUES

Says the Doane Agricultural Service in the Third of a Series of Articles Prepared for The Mortgage Banker

An increase in farm taxes of $1 per acre when capitalized at 5 per cent reduces the earning value of land $20 per acre. The debt-bearing capacity of farms depends largely upon earnings. Money paid for taxes is not available to pay interest on mortgages or to retire debts.

The tax increases of the last twenty-five years have thus absorbed a large portion of the value which farm land formerly had. This is at least part of the explanation of why we now have lower land values than before the World War.

In 1936 only three states, Indiana, Michigan, and Washington, had lower taxes per acre than in 1913. There were eighteen states, those in white on the map, that had over twice the tax load of 1913. Mississippi, North Carolina, and Florida had three and one-half and four times as much tax per acre as in 1913.

Taxes Reduce Land Values

There was a distinct downward adjustment from the tax peak reached about 1928 (see graph) but taxes are again increasing. Much of the increased tax load of farmers is in the form of sales taxes and indirect taxes. Although these taxes are not assessed directly against the land, they tend to reduce land values by the extent to which they reduce the profitableness of farming.

Taxes are in many ways definite land value factors. They affect the standard of living. They are frequently the controlling element in forcing destructive land use practices as landowners often are compelled to produce income to pay taxes regardless of the effect on the land. These are only illustrative of the many reasons why land taxes are so important.

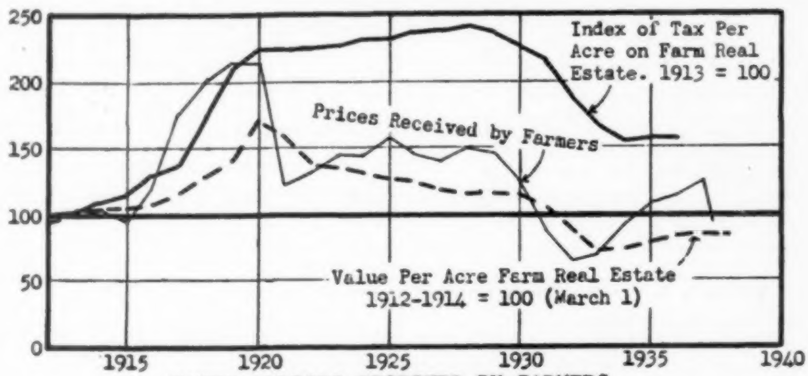
Taxes on farm real estate during and following the war period went higher than either prices received by farmers for their products or the value of the farms against which taxes were assessed.

Taxes continued to climb until after 1929, greatly intensifying the acute situation caused by the general economic adjustments then in progress. There has been a marked decline which leveled off after 1933, but, as the graph shows, the present tax level is far above 1913 taxes and the present prices received by farmers or the value of farm land.

Investment, business, and farming interests should study closely the attitude of states and areas toward equitable taxation. To a great extent, this is an economic element subject to local governmental control.

Mortgage bankers as students of land values should use their influence to avoid taxation that destroys the value of farms. Likewise they should constantly be aware of the value-depreciating influence of increasing taxes and of tax trends. Only in this way can they write mortgages that will prove safe investments.

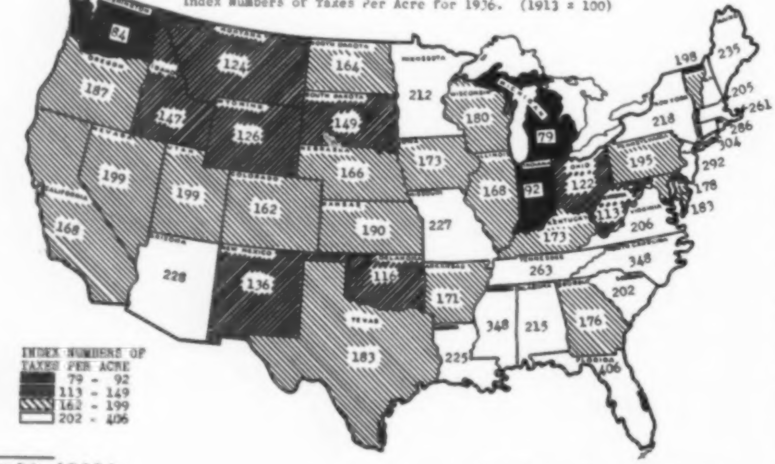
TAXES FAR BELOW LEVELS OF FARM PRICES AND VALUES



TAXES, PRICES RECEIVED BY FARMERS, and VALUE PER ACRE OF FARM REAL ESTATE

TAX INCREASES SINCE 1913

Index Numbers of Taxes Per Acre for 1936. (1913 = 100)



Based on Data of U.S.D.A.

D. A. S. AGRICULTURAL DIGEST

A NEW FARM MEASURE

Senator Shipstead of Minnesota is sponsoring the newest farm legislation in the form of a bill prohibiting federal lending agencies from placing deficiency judgments against distressed farmers who have defaulted on a loan.

The bill would authorize farmers to obtain a re-appraisal and a new loan based on the newly arrived at value of the land. "Since 1934," Senator Shipstead declared, "60,000 farm mortgages have been foreclosed by federal lending agencies. These farmers have not been deprived of their land, but a deficiency judgment has been levied against them which pauperizes them for the rest of their lives."